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New Law Requires Home Sellers To Disclose Supplemental Property Tax Bills

by Betty T. Yee

Buying or selling a home is a major life event for many individuals and families. To protect prospective home buyers, sellers must comply with a myriad of disclosure laws. Effective January 1, 2006, sellers of residential real property are now subject to another disclosure law enacted by Assembly Bill 459. Sellers of any residential real property must now give prospective home buyers a disclosure notice stating that the buyer may have to pay one or two supplemental property tax bills.

What are supplemental property tax bills? They reflect the difference between the assessed value of the property before the sale and the assessed value after the sale. Typically, property tax assessments are based on the property's last sales price, plus a maximum increase of two percent per year for inflation.

With California home values increasing 19 percent during 2005, newly purchased homes often have sales prices significantly higher than their current assessed values. This greater value is reflected in the new assessments after a home is sold. The supplemental tax bill assesses the tax owed by the home buyer on the difference between the sales price and the current assessed value prior to the sale. Supplemental tax bills may be issued only once or twice after the purchase. Unless home buyers complete new construction, they should receive no additional supplemental assessments after their purchase.

What does this disclosure notice look like? <u>The notice required by the new law must use the following text, in at least 12-point type</u>:

> "California property tax law requires the Assessor to revalue real property at the time the ownership of the property changes. Because of this law, you may receive one or two supplemental tax bills, depending on when your loan closes.

> The supplemental tax bills are not mailed to your lender. If you have arranged for your property tax payments to be paid through an impound account, the supplemental tax bills will not be paid by your lender. It is your responsibility to pay these supplemental bills directly to the Tax Collector.
>
> If you have any questions concerning this matter, please call your local Tax Collector's Office."

<u>The notice also must contain the following title, in at least 14-type or a contrasting color</u>:

> "Notice of Your 'Supplemental' Property Tax Bill."

How is the disclosure about supplemental property tax bills different from other disclosures required upon the sale of residential real property? The new law expressly provides that the seller of residential real property has the sole responsibility for making the disclosure. Although this notice does not have to be made in a separate document, the disclosure must be set apart from other transaction disclosures and be incorporated into the transaction disclosure documents as soon as practicable before the close of escrow.

This new law is intended to prevent home buyers from being surprised when they receive supplemental property tax bills that many lenders will not pay through impound accounts. It applies not only to sales of existing homes, but also to sales of new homes in subdivisions where the seller (usually a developer) had been paying property taxes on only the value of raw land.

How many supplemental property tax bills may a home buyer expect to receive? A home buyer may expect to receive one or two supplemental property tax bills, depending upon the date the sale closes escrow and its proximity to July 1, the beginning of the fiscal year.

If the sale closes between January 1 and May 31, home buyer will receive two supplemental tax bills: the first covers the portion of the current fiscal year remaining after the sale date, and the second covers the entire next fiscal year. If the sale closes between June 1 and December 31, the home buyer will receive one supplemental tax bill covering the portion of the fiscal year after the sale date.

Betty T. Yee is the Acting Member representing the State Board of Equalization, First District, which is comprised of 21 counties in northern and central California. The Board hears and decides income, business, and special tax appeals matters.